Analyst Comment

NBK CAPITAL

October 06, 2010

ALMARAI (2280.SE)

12-Month Fair Value: SAR 219
Last Close (05 October 2010): SAR 210.50
Recommendation: Hold - Risk Level: 3

- Almarai reported strong financial results for 3Q2010 that were in line with our expectations. Total sales increased by 19% in 3Q2010 to SAR 1.8 billion, matching our forecast. The expansion in the top-line was driven by a robust performance from all segments, whereby bakery and juice lead the way with 32% and 19% increases in sales in 3Q2010, respectively.

- In August 2010, Almarai commissioned a new bakery plant situated close to its dairy production facilities in Riyadh. The introduction of the bakery plant came just before Ramadan, which allowed the company to take advantage of increased demand during the period. The new bakery plant started operations with the production of bread, and has enabled Almarai to serve bakery products to all GCC countries. In addition, the company expanded its juice line to release bottlenecks that constrained production early during the year.

- Almarai achieved an EBITDA of SAR 592 million in 3Q2010 (a 23% increase over 3Q2009), and registered an improvement in the EBITDA margin from 31.1% in 3Q2009 to 32.3% in 3Q2010. Moreover, the company reported a 21.7% growth in EBITDA during 9M2010, slightly ahead of our growth forecast of 19.5% for FY2010.

- Net profit followed in-line with the rest of the company's performance, improving from SAR 363.4 million in 3Q2009 to SAR 424.5 million in 3Q2010—a 17% increase year on year. In addition, Almarai was able maintain its net profit margin at 23.3%, despite higher depreciation costs.

- Almarai's Board of Directors recommended the distribution of one bonus share for each outstanding share; however, this event still requires shareholders' approval. Currently, Almarai has the highest per share price on Tadawul, and such an action could act as a liquidity booster for the stock.

- Our fair value estimate for the share price of Almarai is SAR 219, which is 4% higher than the latest close. Our new recommendation for Almarai is a "Hold," which reflects the lack of a significant upside for the stock. The company's performance in 3Q2010 was strong but was largely expected by the market. Since our last update on the company on May 20, 2010, the stock has rallied from SAR 189.75 and reached SAR 210.50—effectively closing the gap with our target price.

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Related Research

- Almarai Update - 20 May 2010
- Almarai Analyst Comment - 12 July 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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